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Weekly Commentary, Selected Financial Data, and Business Indicators

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A Brighter Debt Horizon . . .

While there is reason for guarded optimism about the external debt problems of the less developed countries (LDCs), there still remains much to be done in the future. The principal cause for optimism has been the quick and concerted response to the debt crisis by the various participants—the developing countries themselves, such international institutions as the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) and the commercial banks.

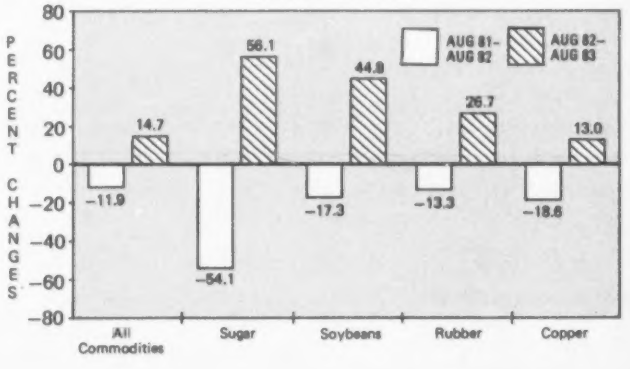
Most of those LDCs which have been faced with difficulties in servicing their external indebtedness have imposed restrictive, domestic policies aimed at reducing demand and increasing foreign exchange earnings to service their debt. These measures have included slashing imports, raising taxes, reducing government budget deficits and systematically devaluing their currencies to improve export price competitiveness. The results of these efforts are apparent. Brazil, for example, has generated a merchandise trade surplus of $4.9 billion so far this year. And, in the first six months of this year, Mexico slashed imports by 60 percent over the same period last year. What is more, there have been equally dramatic improvements in both the trade and current accounts in many of the other key developing countries. As a result, their aggregate trade surplus this year is expected to be about double last year's, while their aggregate current account deficit may be cut by two-thirds when compared with 1982.

The IMF has expanded its role not only as a monitor of international financial activity but also as a lender in order to meet emergency needs. The BIS also assumed a wider role than in the past by supplying short-term bridge financing to troubled LDCs until other resources could be mobilized. Both of these institutions have demonstrated great flexibility in responding to new challenges. So, too, have the commercial banks which have led the way in a series of debt reschedulings, which not only extend loan maturities in order to reduce the proportion of short-term LDC debt but also allow the LDCs more time to set their economic houses in order. In the last 18 months, some 15 debt relief agreements totaling about $100 billion, have been either put in place or are in negotiation.

. . . Reflects Improved Conditions . . .

Other factors also contribute to the rising optimism. For one thing, interest rates in the United States and abroad have retreated and are now several points below year-ago levels. This, in turn, has had at least two beneficial effects. First, it has lowered the cost of servicing debt. It has been estimated that each percentage point decline saves Mexico and Brazil at least $500 million a year in interest costs alone. Second, lower interest rates have stimulated recovery in the United States and in other industrial countries, allowing the markets for LDC exports to expand—increasing their foreign exchange earnings and, thus, improving their ability to service their debt. Over the last six months, for example, U.S. imports from the LDCs increased by 41 percent. As the U.S. economy grows during this recovery, the LDCs will continue to benefit.

INTERNATIONAL PRICE INDEXES FOR SELECTED COMMODITIES
(PERCENT CHANGES)



Another factor contributing to the improved LDC debt situation is the recovery in the prices of several basic commodities which are the principal exports of many developing countries (see chart). This is because the recovery that has been under way in the U.S. for almost a year has already helped boost commodities' prices sharply. Meanwhile, the price of the one major commodity that most developing countries must import, oil, has fallen. The average

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spot price for OPEC crude oil has dropped week-over-week for eight of the last nine weeks and is currently just over $28 per barrel—13.5 percent below the level of one year ago and the lowest level since early June.

. . . But Some Dark Clouds, Too

But in spite of these positive developments, there are still a number of obstacles to be overcome. In the first place most other industrial countries, particularly in Europe, are still experiencing only a hesitant and sluggish recovery and are not yet contributing fully to a healthy world economy by increasing their imports from the LDCs. Although the U.S. is the principal factor in world economic recovery, it cannot perform this task unaided. The major industrial countries of Europe, as well as Japan, must also take part in reviving world trade. Since exports are the LDCs' principal source of foreign exchange, still more LDCs may yet find themselves in need of financial assistance.

Unfortunately, one principal source of developing country assistance faces its own financial hurdles. Already the IMF's financial resources are severely strained in meeting present obligations. As of last April 30 (the end of the IMF's fiscal year), the IMF had just over $29 billion in available financial resources, most of which were committed under signed loan agreements to member countries. At

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/5/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	161.863	– .885	+20.114
Loans to Depository Inst.	1.416	+ .135	+ .810
Float	.896	– .256	– .740
Total Reserve Bank Credit	172.915	– .736	+19.081
Treasury Deposits with Federal Reserve Banks	12.326	– 1.831	+ 7.622
Currency Outside Banks	143.865	+ 1.113	+12.276
Member Bank Reserves:			
Required	37.529	– .379	– 2.208
Excess (Deficiency)	.678	+ .216	+ .167
Total Reserves Held	38.207	– .163	– 2.041
Net Borrowed Reserves	.038	– .035	+ .170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.818	– .461	+11.035
Monetary Aggregates†		**% Change Since Three Months Ago***	**% Change Since Year Ago**
M1	517.2	+ 4.6‡	+ 11.5‡
M2 (September '83)	2,145.7	+ 5.9	+ 11.9
M3 (September '83)	2,544.0	+ 7.3	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/14/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	9.05%
* Federal Agencies	9.05	9.35	9.85
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	9.72	10.46
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.25	9.40	10.10

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.13%	Nov.	9.10%
15- 29 days	9.13	Dec.	9.07
30- 59 days	9.13	Jan.	9.07
60- 89 days	9.13	Feb.	9.07
90-179 days	9.00	Mar.	9.07
180-239 days	8.88	Apr.	9.05
240-270 days	8.88		

‡Industrial Paper—Prime			
30- 89 days	9.10%	†Federal Funds Effective Rate	9.25%
90-120 days	9.05		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Sep '83n	1.2%	4.8%	1.2%
Civilian Employment (Thousands of Persons)†	Sep '83	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force†	Sep '83	9.3%	9.5%	10.2%
Personal Income*	Aug '83	$ 2,755	$ 2,749	$ 2,587
Leading Indicators Composite Index (1967=100)†	Aug '83	158.1	158.3	136.1
Industrial Production Index (1967=100) †	Sep '83n	153.7	151.4r	137.3
Net Change in Consumer Installment Credit †	Aug '83n	$ 3.39	$ 4.84	$ 0.26
U.S. Merchandise Trade Balance †	Aug '83	–$ 7.19	–$ 6.36	–$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83	1,935	1,785	1,046
New Construction Expenditures*	Aug '83	$ 276.1	$ 269.5	$ 231.6
Total Business Inventories †	Aug '83n	$ 512.1	$ 505.8r	$ 521.3
Total Business Sales †	Aug '83n	$ 373.6	$ 372.4r	$ 343.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

present the IMF is awaiting approval of an increase in member quotas in order to supplement its existing resources. The bill approving an $8.4 billion increase in the U.S. quota is now awaiting final revision by a House of Representatives/Senate Conference Committee.

The financial resources of the IMF have not grown at a rate commensurate with the rising demands placed upon them. Prior to 1974, total IMF quotas were about twice as large as the aggregate of the members' annual current account deficits. Since that year, the quotas have averaged only about one-half of the annual level of members' current account deficits. What is more, only about one-half of the currencies which make up the quota contributions can be used for lending—the currencies of the major industrial countries.

If the quota increases requested by the IMF are approved by the members (including the U.S.) the total funds available to the IMF from its members will be close to $100 billion. At this level the IMF should be able to meet its present and prospective obligations to member countries. Because of the key role which this institution plays in the international financial markets, both as a lender and as a monitor of members' economic performance, it is important that the Fund remains able to participate in the vital adjustment process which is now taking place. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/28/83)	93,384	+ 1,049	–54,840
New York City (9/28/83)	21,054	+ 34	–16,103
Commercial Paper (9/28/83)	176,835	– 990	+ 4,385*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/28/83)	213,348	– 1,286	– 4,586
New York City (9/28/83)	56,931	– 1,003	– 4,290

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/28/83)	510,584	– 711	+ 8,027
New York City (9/28/83)	115,321	– 1,052	– 4,205

Financial Markets

	Friday 10/14/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.05%	+ .15	+ 1.45
180-Day Bills†	9.45	+ .15	+ 1.32
Longest Bill†	9.83	+ .15	+ 1.03
Recent Issues:			
10⅞s 9/30/85	10.58	+ .18	
11⅛s 9/30/87	11.07	+ .17	
11⅞s 8/15/93	11.55	+ .23	
12s 8/15/13	11.60	+ .22	
Municipals:			
Bond Buyer–20 Bond Index* (10/13/83)	9.67%	+ .18	+ .42
Blue List Total ($ Million)	$1,436	+ $ 33	+ $ 350
30-Day Visible Supply ($ Million)	$2,214	– $196	– $1,253
Total	$3,650	– $163	– $ 903
Corporates:			
Moody's Aa Composite (10/13/83)	12.56%	+ .13	– .27
30-Day Visible Supply ($ Million)	$1,742	+ $367	+ $ 532
Stocks:			
Dow-Jones Averages:			
Industrials	1,263.52	– 8.63	+ 270.42
Transportation	580.55	– 6.15	+ 178.57
Utilities	137.38	– 1.59	+ 16.12
65 Stocks	502.06	– 4.31	+ 116.79
Standard and Poor's 500 Stocks	169.86	– .94	+ 36.29
N.Y.S.E. Composite Index	98.00	– .72	+ 21.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	72,350	–26,006	– 46,292

* 46% Taxable equivalent 17.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/14/83	Week Ago
Overnight	9.63%	9.38%
1 month	9.63	9.31
3 month	9.81	9.44
6 month	9.88	9.50
1 year	10.19	9.81
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.40%
Long Term (7 to 15 yrs.)	11.60	11.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/14/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01878	53.26
Canada	.8109	1.2332
Denmark	.1056	9.4725
France	.1250	8.0025
Germany	.3816	2.6205
Italy	.0006287	1590.50
Japan	.004279	233.68
Mexico	.006452	155.00
Netherlands	.3407	2.9355
Switzerland	.4707	2.1243
U.K.	1.4945	.6691

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